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AGENDA ITEM #4120

WATER/SNR/PTL/KKE:jjj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION  
Water Branch

RESOLUTION NO. W-4516  
December 16, 2004

R E S O L U T I O N

**(RES. W-4516), TAHOE SWISS VILLAGE UTILITIES, INC. (TSVU). ORDER AUTHORIZING AN OFFSET RATE INCREASE OF \$5,587 OR 3.4% AND A ONE-TIME SURCHARGE PRODUCING ADDITIONAL REVENUE OF \$1,042 FOR DEPARTMENT OF HEALTH SERVICES (DHS) FEES.**

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**SUMMARY**

By Advice Letter (A.L.) No. 11, TSVU seeks a rate increase in its Tahoe Swiss Village (TSV) district to reflect an increase in rate base and to recover fees paid to DHS. This resolution grants TSVU an increase in gross annual revenues of \$5,587 or 3.40% to provide a 12.56% rate of return. This resolution also authorizes a one-time surcharge of \$2.83 per connection in the TSVU district to recover DHS fees of \$1,042 for the fiscal years July 1, 2002 through June 30, 2003, and July 1, 2003 through June 30, 2004.

**BACKGROUND**

TSVU filed A.L. No. 11 on August 27, 2004, to request an increase in rates for its TSV district's tariff schedules 1A, Annual General Metered Service; 2A, Annual Residential Flat Rate Service; and 4, Private Fire Protection Service. The request is a ratebase-offset increase for the TSV district's plant investment of \$49,277 installed over the years 2002, 2003, and 2004. The request also seeks to recover the DHS fee for the fiscal years 2002-03 and 2004-05 in the TSVU district. TSVU consists of two rate-making systems: the TSV district (390 residential, commercial and private fire connections and hydrants) and the Glenridge system (52 residential and private fire connections).

The present rates for TSV became effective on October 30, 2001, pursuant to Res. W-4305 that authorized an offset rate increase of \$18,726 or 13.60%, and provided a rate of return of 10.13%. The last general rate increase became effective January 10, 1995, pursuant to Res. W-3903, which authorized a general rate increase of \$18,826 or 23.5%, and a rate of return of 10.13%. TSV's recorded earnings test for calendar year 2003 reveals that TSV is earning at 8.15% rate of return.

TSV presently serves approximately 368 flat rate residential customers in its service territory, an area one and half miles north of the city of Homewood in Placer County.

### **NOTICE AND PROTESTS**

Notice of the proposed rate increase was published in the Tahoe World, a newspaper of general circulation, on September 2, 2004, as evidenced by proof of publication provided to the Water Division's Water Branch (Branch) by the utility. There were no protests concerning the proposed offset rate increase.

### **DISCUSSION**

In this resolution, TSVUU requests authority under §VI of General Order 96-A and §454 of the Public Utilities Code to increase rates for plant additions (a well structure, new larger mains, and isolation valves) at its TSV district. The surcharge request is for TSV's standard annual DHS fees.

The ratebase-offset request pertains to a new supply source mandated by DHS to comply with the Surface Water Treatment Rule (SWTR) set by the United States Environmental Protection Agency (USEPA). Under the SWTR, all water systems using surface water or ground water under direct influence of surface water must filter and disinfect their supply source water (in TSVU's case at its Lake Tahoe intake) or develop a source of water not influenced by surface water.

This ratebase-offset consists mainly of the Grant Avenue well site and proximate water mains and isolation valves.<sup>1</sup> The 230 feet of water mains replaced had a

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<sup>1</sup> TSVUU owner, Mr. Steve Glazer, states a further improvement would be the installation of an on-site generator.

history of low water pressures and water outages due to leaks. Total investment for this project over the three-year period (2002-2004) was \$49,277.

On September 20, 2004, the Branch reviewed, inspected, and deemed the additional TSVU plant completed for this offset request. However, the inspection revealed that TSVU's SWTR project at its Beach Lake supply source is not complete. The DHS has allowed TSVU to pull water from this source without completion of the SWTR requirements at this site on the proviso the required permitting process is completed and the needed improvements for the Beach Lake source move forward towards completion before next summer. If this does not occur, a larger tank scheduled for completion by next summer could delay the needed improvements at the Beach Lake source until the summer of 2006.

In TSV's last General Rate Case (GRC) Res. W-3903, dated January 10, 1995, the Commission authorized a 10.13% rate of return (ROR) on rate base for TSV. Normally, a requested ratebase offset increase would be limited to the ROR on ratebase as shown in the most recent GRC. However, the language of Res. W-3903 indicates the Commission considered the impact of the 10.13% ROR on future filings.

The 10.13% ROR is below the "standard 13.85% recommended"<sup>2</sup> for Class D utilities in 1995. While Finding No. 9 in Res. W-3903 states:

"9. A rate of return of 13.85% is reasonable and should be adopted." there is no corresponding Ordering Paragraph with this same language. However, in Res. W-3903, Ordering Paragraph Two, part c. states: "[TSVU is authorized to file advice letters to:] c. increase its rate of return to that which will be in effect in 1996. Customers shall be notified at the time of the filing."

The earnings test for this request reveals this offset increase will not cause TSVU to earn above its authorized ROR as discussed in Res. W-3903. The company's requested 12.56% ROR on rate base is lower than the 13.40% ROR deemed

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<sup>2</sup> See Res. No. W-3903, dated January 5, 1995, page one under the Summary section.

reasonable by the Branch for a Class D water utility for 2004<sup>3</sup> and lower than the ROR discussed in Res. W-3903 for ratebase offset increases.

TSVU also requested a one-time surcharge to pay the annual DHS fees billed to TSV for costs related to water quality standards. The utility published the proposed increase before the A.L. was deemed accepted by the Branch. The utility did not request DHS fees for sequential years. Thus, when the Branch discovered a lapse in the years of DHS fees submitted for recovery, the publication had already occurred.

A thorough research of past TSVU's advice letter filings by Branch revealed the company missed the year 2003-2004. Advised of this omission, the utility amended its A.L. 11 with supplemental A.L. 11-A on October 25, 2004 by filing for recovery of DHS fees for the years 2002-2003 and 2003-2004 only. The amended request is identical to the amount published. The fee was \$521 for each of the years in question for the TSVU district (total of \$1,042).

This resolution authorizes a one-time surcharge of \$2.83 (\$1,042/368 connections) per customer for recovery of the DHS fee not currently in rates. The average flat rate residential customer will see rates increase from an annual charge of \$412.37 to \$423.80 or 2.77%.

Branch policy now includes in rates standard DHS fees, thus relieving both the Commission and the utilities from the need to address offsets for this recurring expense. The absence of DHS fees in the TSV rates indicates the district has not applied for a GRC recent timeframe. In fact, a decade has past since TSVUU requested a GRC for its TSVU district. The utility should within 180 days of the effective date of this resolution file an informal GRC application.

## **FINDINGS**

1. Under the Surface Water Treatment Rule (SWTR), set by the United States Environmental Protection Agency, all water systems using surface water or ground water under direct influence of surface water must filter and disinfect

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<sup>3</sup> A memorandum from the WD dated March 1, 2004 states the recommended Return of Equity (TSVU is 100% equity financed) for Class D utilities should be in the range of 12.40 to 13.40%.

their supply source water or develop a source of water not influenced by surface water.

2. TSVU has completed SWTR compliance at its Grant Avenue well site.
3. TSVU has not completed SWTR compliance at its Beach Lake supply source but is moving towards completion scheduled no later than the summer of 2006.
4. Inspection by Branch of the offset request confirmed completion of the plant in service as indicated in the filing of A.L. No. 11.
5. TSVU request in A.L. 11 the standard annual DHS fees for the years 2002-2003 and 2004-2005 at its TSVU district, skipping the fiscal year 2003-2004.
6. TSVU amended A.L. 11 with supplemental A.L. 11-A to rescind its request of DHS fees for 2004-2005 and replace that year with 2003-2004.
7. It has been Branch policy to include recovery of standard annual DHS fees in rates during the General Rate Case (GRC) process.
8. TSVU has not applied for a GRC for its TSVU district in a decade.
9. TSVU should be ordered to file an informal GRC through the advice letter process within 180 days of the effective date of this resolution for its TSVU district.
10. The Commission finds, after investigation by the Branch, that the rates hereby authorized are justified and the resulting rates are just and reasonable.

**THEREFORE IT IS ORDERED THAT:**

1. Tahoe Swiss Village Utilities, Inc.'s TSV district is authorized to make effective revised Schedules: 1-A, Annual General Metered Service; 2A, Annual Residential Flat Rate Service; and 4, Private Fire Protection Service, as attached to Advice Letter No. 11-A and concurrently to cancel the presently effective rate schedules. The effective date of the revised rate schedules shall be five days after the date of this resolution.
2. Tahoe Swiss Village Utility must complete its SWTR compliance at its Beach Lake supply source no later than 2006.
3. Tahoe Swiss Village Utilities, Inc. shall file an informal General Rate Case application via the advice letter process within 180 days of the effective date of this resolution.

**DRAFT**

Resolution W-4516

December 16, 2004

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4. This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on December 16, 2004; the following Commissioners voting favorably thereon:

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STEVE LARSON  
Executive Director